



## **DETECTION OF GOING CONCERN AUDIT OPINION BASED ON DISCLOSURE, FINANCIAL CONDITION AND OPINION SHOPPING**

**FIKA TRYA RAMADHANI, WIWIT APIT SULISTYOWATI\***  
**Universitas Swadaya Gunung Jati**  
*Email: fikatryar@gmail.com, wiwit.apit@gmail.com\**

### **ABSTRACT**

*Going concern shows assumptions in the financial reporting of an entity relating to the viability of an undertaking. Therefore, the role manager is critical to realize its business continuity. This research aims to analyze the influence of disclosure, financial condition, and opinion shopping on the acceptance of audit opinions going concern on manufacturing companies of various industries listed on the Indonesia Stock exchange for a period of years 2014 – 2016. This article uses the verificative method and the sample selection using the purposive sampling method. Sample selection results obtained 90 company data. This study used the analysis of logistic regression, and the results showed that the opinion shopping influence on the acceptance of the audit opinion of going concern while the disclosure and financial condition does not affect the acceptance of the audit opinion Going concern.*

**Keywords:** *Acceptance of Going Concern Audit Opinion; Disclosure; Financial Condition; Opinion Shopping*

### **1. INTRODUCTION**

Going concern is the survival of a business and is an assumption in the financial reporting of an entity. This assumption requires that the company to be operational has the ability to sustain its survival and will continue its business in the future. The company assumed neither intended nor wanted to liquidate or reduce the scale of its business (Indonesian Institute of Accountants, 2017) materially. While the opinion of the audit going concern is an opinion published by the auditor to determine whether the company can maintain its survival (Indonesian Institute of Accountants, 2017). Therefore, the study of going concern became a challenge related to the exploration of management roles, audit committees and auditors in publishing about business continuity (George & Melinda, 2015). The statement reinforces this that receiving an audit's report with a going-concern modification may impede an entity's ability to raise additional capital (Foster & Shastri, 2016).

\* Corresponding author's e-mail: [wiwit.apit@gmail.com](mailto:wiwit.apit@gmail.com)  
<http://openjournal.unpam.ac.id/index.php/JIA>

Here are the phenomena about the many companies that accept the audit opinion going concern, especially in the manufacturing company of various industrial sectors listed at IDX in 2014-2016.

**Table 1**  
**Audit Opinion of Various Industrial Sectors**

Description	2014	2015	2016	Total
Number of samples	33	29	28	90
Companies that accept going concern audit opinion	15	17	12	44
Companies that accept non-going concern audit opinion	18	12	16	46

Source: [www.idx.go.id](http://www.idx.go.id)

Based on table 1 showed that the manufacturing company of various industrial sectors listed at IDX in 2014-2016, which received the audit opinion going concern several 44 of the total of all samples are 90 or 48% of the total sample. The company that received the audit opinion of Going concern is several 44 companies while not receiving an audit opinion going concern several 46 companies. Audit opinions going concern can harm the company because the recipient of audit opinions going concern can be predicted to experience bankruptcy in the future.

Some factors that influence the opinion of the audit going concern include the disclosure, financial condition, and opinion shopping. Disclosure is the recording of company information to assist in providing a more accurate description of the actual state of the company. Management's opinion about going concern reported in the MD&A and the linguistic tone of the MD&A together provide significant explanatory power in predicting whether a firm will cease as a going concern. Moreover, the predictive ability of MD&A disclosure is incremental to financial ratios, market-based variables, and even going concern opinion from the auditor. We also find that the incremental predictive ability of MD&A disclosures extends to three years before bankruptcy (Mayew et al., 2014). According to the opinion of Jamaluddin (2018) that disclosure plays an essential role in the audit opinion going concern.

The company's financial condition describes the real level of corporate health (Murtin and Anam, 2008). Auditors have hardly ever issued an audit opinion of going concern on companies that do not have financial difficulties. Auditors will tend to issue an audit opinion going concern if the company is experiencing financial distress so that it is within the threshold of bankruptcy (Murtin and Anam, 2008). According to the opinion of Chen et al. (2016) that the going concern opinion related to the decision of the capital structure to be taken by the company.

Opinion shopping as defined by the SEC as an activity seeking auditors or turnover of auditors who want to support the accounting treatment submitted by

management to achieve the company's reporting objectives (Harris and Merianto, 2015). Opinion shopping is one of the actions of the company that will avoid the audit opinion going concern to achieve specific objectives. The avoidance of the audit opinion of going concern is done by the management of the company so that stakeholders remain confident in the management of the company. Therefore, the independence of auditors becomes a critical challenge or factor that is considered when there is a long enough relationship between auditors and clients. Stakeholders hope that auditors must be able to answer the report honestly and provide assurance against shareholders concerning the reliability, compliance to the regulatory body and accounting policies, reliability, and the truth and Fairness of the client's financial statements (Salleh & Temporal, 2014).

The audit partner has to maintain regular contact with the client management and client's audit committee. They added that the new partner would enhance the audit quality as the new audit partner brings "fresh and skeptical eyes" into the audit despite the fact of new partner rotation create a new learning curve for the incoming partner. Hence, it is essential to rotate audit partners to reduce the familiarity threats and subsequently improve the quality of audit. Besides, the audit quality is not only affected by audit firm rotation, but also the duration of the audit partner holds office with the same client for several years) (Newton et al., 2015). The quality of audit is considered vital because it becomes a consideration of management in the responsibility of its management (Rosnidah et al., 2018), (Rosnidah et al., 2017).

Prior Research predicts the audit opinion of going concern has been conducted by Haron et al. (2009), O'reilly (2010), Blay et al., (2011), Carson et al., (2012), Amin et al., (2014), Sundgren et al., (2014), Hapsoro et al., (2017). Elmawati and Yuyetta (2014) stated that the disclosure was significant to the acceptance of the audit opinion going concern, while Harris and Merianto said (2015) that the disclosure was significantly negative to the acceptance of audit opinions Going concern. Karyanti and Pratolo (2009) showed that the financial condition does not affect the acceptance of the audit opinion going concern, while according to Murtin and Anam (2008) Financial condition affects the acceptance of the audit opinion going concern. Harris and Merianto (2015) show that opinion shopping affects the acceptance of the audit opinion going concern, while Rianto (2016) did not succeed in proving the influence.

The phenomenon shows that many industrial sector-wide manufacturing companies listed on the IDX receive an audit opinion of going concern in the period 2014-2016, as well as past inconsistent research. The majority of previous studies review the audit opinion of going concern associated with funding issues (Amin et al., 2014) and market reactions reflected in the stock price (O'reilly, 2010). Therefore, to fill the literature gap then this study is done by predicting the opinion of the audit going concern by emphasizing the disclosure (Mayew et al., 2014), Financial condition (Chen et al., 2016), and opinion shopping (Salleh & Jasmani, 2014).

Based on the explanation, the research questions are:

- a. What is the effect of disclosure on the audit opinion of going concern?

- b. What is the effect of financial condition on the audit opinion of going concern?
- c. What is the effect of opinion shopping affect the audit opinion of going concern?

## 2. RESEARCH METHOD

### Data Collection Techniques

This research data is secondary data collected through *www.idx.go.id* access, which is the financial report of manufacturing companies of various industries listed on the Indonesia Stock Exchange (IDX) in 2014-2016.

### Operational Definitions of Variables

This research uses four variables, namely the Disclosure, financial condition and Opinion Shopping as a free variable (independent) and the acceptance of the audit opinion going concern as a dependent variable. The dependent variable in this study is the opinion of the audit going concern (Y). Audit opinions going concern is an audit opinion modification that, in consideration of the auditor, there is a doubt over the ability of the company is going concern, or there is significant uncertainty over the survival of the company in carrying out Operation (SPAP, 2011). This variable is measured using a dummy. Category 1 to auditee who received an audit opinion going concern and category 0 for Auditee who received an audit opinion of ongoing concern (unqualified opinion) (Elmawati and Yuyetta, 2014).

Disclosure is the disclosure or provision of information by the company, both positive and negative (Astuti, 2012) (Elmawati and Yuyetta, 2014). This variable is measured using indices that can be viewed from the disclosure level of the company's financial information compared to the amount that the company should have expressed. If the company discloses the information item in its financial statement, a score of 1 will be given, and if the item is not disclosed, 0 will be awarded. After scoring, the disclosure level can be determined by the following formula (Cooke, 1992) in (Elmawati and Yuyetta, 2014).

Disclosure level = total score of disclosure/total maximum score

The company's financial condition describes the actual health level of the company during certain periods (Elmawati and Yuyetta, 2014). Financial conditions are described as the company's health level, to describe the health level of the company's used predictive models Zscore Altman (1968, 1983) (Murtin and Anam, 2008). The models are used as follows:

$$Z_i = 1.2 Z_1 + 1.4 Z_2 + 3.3 Z_3 + 0.6 Z_4 + 1.0 Z_5$$

Description:

Z1: Working capital/Total Asset

Z2: Retained Earnings/Total asset

Z3: EBIT/Total assets

Z4: Market capitalization/book value of debt

#### Z5: Sales/Total assets

Based on this analysis if the Z value of the company studied is smaller than 1.80 high risk of bankruptcy, if the value of Z located between 1.81 to 2.99 is said to have a risk of bankruptcy still, if above the value of 2.99 or  $Z > 2.99$  Secure bankruptcy against the conditions of competition (Elmawati and Yuyetta,2014).

Opinion shopping is defined by the SEC (1985) in (Harris and Merianto,2015) as an activity seeking auditors who want to support the accounting treatment submitted by the management to achieve the company's reporting objectives. This variable uses a dummy variable, code 1 is given to the company that performs the turnover of auditors when it gets the opinion of going concern, and 0 if it does not change the auditor when it gets opinions going concern (Harris and Merianto, 2015).

#### Sample Collection Techniques

The population in this research is a manufacturing company of various industrial sectors listed on the Indonesia Stock Exchange (IDX) in 2014-2016. Sample research using the Purposive sampling method. The criteria in sampling are as follows:

- a) The manufacturing company of various industries listed on Indonesia Stock Exchange (IDX) in 2014-2016
- b) Issue an annual report audited by an independent auditor during 2014-2016.
- c) Provide auditor's report on the company's annual report.

Based on the criteria in the sample selection, in this research the selected samples are 90 sample data in manufacturing companies of various industries listed on the Indonesia Stock Exchange in 2014-2016.

#### Data Analysis Techniques

This research uses logistical regression, with regression models as follows:

$$\text{Ln} \frac{\text{GC}}{1-\text{GC}} = \alpha + \beta_1 \text{ DISC} + \beta_2 \text{ ZSCORE} + \beta_3 \text{ OPSH} + e$$

Description:

$\alpha$	= constant
Ln	= opinion going concern
DISC	= Disclosure
ZSCORE	= Financial Conditions
OPSH	= Opinion Shopping
E	= Error

The hypothesis testing in this study was conducted with the following stages:

#### 1) Test Model Fit

A fit model test is used to assess which model has been hypothesized to have been fitted or not against data. Hypotheses to assess fit models are:

H0: Models that are hypothesized to fit with data

HA: Models that are hypothesized to not fit with data

The smaller the value-2LogL, which has a minimum value of 0, then the better the model, and otherwise, the bigger the value-2LogL, the less useful the model.

## 2) Feasibility Test Model regression

The feasibility of a regression model is assessed by using Hosmer and Lemeshow's Goodness of Fit Test. This Model to test the zero hypothesis that empirical data fit or fits the model (no difference between the model and the data so that the model can be told fit).

## 3) Estimation of parameters and interpretations

The estimation of the parameters can be assessed through a regression coefficient of each of the tested variables, whether the form of a relationship between variables is done by comparing the probability (sign) values for testing Hypothesis. Hypothesis testing on logistic regression was conducted using the significance rate ( $\alpha$ ) of 5%. The hypothesis acceptance or rejection criteria will be based on the P-value value. Decisions are based on the following probability:

If P-value is  $> 0.05$ , then the hypothesis is rejected

If P-value is  $< 0.05$ , then the hypothesis is accepted.

## 3. DATA ANALYSIS AND DISCUSSION

### Data Analysis

Here is the test result table coefficient of determination:

**Table 2**  
**Coefficient test Result determination**

Step	-2 log likelihood	Cox & Snell R Square	Nagelke R Square
1	112,240	,126	,168

Source: secondary data processed (2019)

Table 2 shows that the value of Nagelkerke's is at 0.168. This explains that the percentage of disclosure, financial condition, and opinion shopping in explaining the opinion of the audit going concern in the manufacturing company of various industrial sectors amounted to 16.8%, while the remaining 83.2% can be explained by other variables Not used in this study. Here is a hypothesis test result table:

**Table 3**  
**Hypotheses Result**

Variable	Sig.
Disclosure	.408
Financial condition	.093
Opinion shopping	.004

Source: secondary data processed (2019)

## **Discussion**

### **Disclosure and going concern audit opinion**

Based on the results of the hypothesis testing through a logistic regression test, a significant rate of  $0.408 > 0.05$  H1 test results showed that the disclosure did not affect the acceptance of the audit opinion of going concern. The results of this research following the research conducted by Fahmi (2015) which indicates that the disclosure does not affect the acceptance of the audit opinion going concern. Nevertheless, the results of this study were not in line with Elmawati and Yuyetta's research (2014), indicating that the disclosure was influential on the acceptance of the audit opinion going concern. This can be because the company has not been able to reach the value of items that should be disclosed. In this study, the majority of the value of the disclosure level declined, while the majority of opinions received by sample companies were non-going concern audit opinions. Therefore, the disclosure does not affect the acceptance of the audit opinion going concern.

### **Financial condition and going concern audit opinion**

Based on hypothesis testing results through logistics regression tests, with a significant degree of  $0.093 > 0.05$ , H2 test results showed that financial conditions did not affect the acceptance of the audit opinion going concern. The results of this research following the research conducted by Karyanti and Pratolo (2009) which indicates that the financial condition does not affect the acceptance of the audit opinion going concern. Nevertheless, the results of this research are not in line with the research of Murtin and Anam (2008), which suggests that the financial condition affects the acceptance of the audit opinion going concern. Based on the results of the calculation of model Z-score Altman from the financial condition that has been researched, that from 35 companies manufacturing various industrial sectors with 90 sample data in this study the majority of the 64 sample data received bankruptcy risk And as many as 26 safe sample data from bankruptcy risk. This can be caused by the majority of the sample data at risk of bankruptcy, while the majority of the sample data examined receives non-going concern audit opinions, and the risks in the research year are decreasing. Therefore, the financial condition does not affect the acceptance of the audit opinion going concern.

### **Opinion shopping and going concern audit opinion**

Based on the results of the hypothesis testing through a logistic regression test, a significant degree of  $0.004 < 0.05$  H3 test results showed that the opinion shopping was influential on the acceptance of the audit opinion going concern. The results of this study following the research conducted by Harris and Merianto (2015), which shows that the opinion shopping effect on the acceptance of the audit opinion going concern. However, the results of this research are not in line with research Rianto (2016) which shows that opinion shopping does not affect the acceptance of the audit opinion going concern. Companies that do opinion shopping will likely be able to get the opinion of the audit going concern compared to companies that do not do opinion shopping. This can be due to the

majority of the sample data does not do opinion shopping, and the majority of corporate data receives non-going concern audit opinions. Therefore, companies that do opinion shopping tend to get audit opinions going concern.

#### 4. CONCLUSION

The results showed that the disclosure and financial condition did not affect the audit opinion of going concern. This can be due to the majority of the level of disclosure on companies that become samples decreased, while the majority of companies gained an audit opinion going concern. Reviewed from the financial condition, the majority of companies that become risky samples are experiencing bankruptcy. While the opinion shopping affects the audit opinion is going concern, because the majority of the sample data does not do opinion shopping, and the majority of the sample data received an audit opinion non-going concern.

The effect of opinion shopping on the audit opinions going concern gives implications on the evaluation of agency relationships. In this case, the company is managed by agents who do opinion shopping because there is potential acceptance of the audit opinion going concern. Therefore, company managers need to improve the management of resources, both financial and non-financial, to keep business continuity.

Fit Model Test results show the contribution of all research variables by 16.8%, while the remaining 83.2% can be explained by other variables not tested in this study. Therefore, recommendations for subsequent research are to analyze from the company's characteristics, such as profitability and the debt level of the company.

#### REFERENCES

- Amin, K., Krishnan, J., & Yang, J. S. (2014). Going concern opinion and cost of equity. *Auditing: A Journal of Practice & Theory*, 33(4), 1-39.
- Blay, A. D., Geiger, M. A., & North, D. S. (2011). The auditor's going-concern opinion as a communication of risk. *Auditing: A Journal of Practice & Theory*, 30(2), 77-102.
- Carson, E., Fargher, N. L., Geiger, M. A., Lennox, C. S., Raghunandan, K., & Willekens, M. (2012). Audit reporting for going-concern uncertainty: A research synthesis. *Auditing: A Journal of Practice & Theory*, 32(sp1), 353-384.
- Chen, P. F., He, S., Ma, Z., & Stice, D. (2016). *The information role of audit opinions in debt contracting*. *Journal of Accounting and Economics*, 61(1), 121-144. doi:10.1016/j.jacceco.2015.04.002



- Elmawati, D., & Yuyetta, E. N. A. (2014). *Pengaruh Reputasi Kantor Akuntan Publik (Kap), Audit Tenure, Dan Disclosure Terhadap Penerimaan Opini Audit Going Concern* (Doctoral dissertation, Fakultas Ekonomika dan Bisnis).
- Foster, B. P., & Shastri, T. (2016). Determinants of going concern opinions and audit fees for development stage enterprises. *Advances in accounting*, 33, 68-84.
- George-Silviu, C., & Melinda-Timea, F. (2015). *New Audit Reporting Challenges: Auditing the Going Concern Basis of Accounting*. *Procedia Economics and Finance*, 32, 216–224. doi:10.1016/s2212-5671(15)01385-4
- Hapsoro, D., & Suryanto, T. (2017). Consequences of going concern opinion for financial reports of business firms and capital markets with auditor reputation as a moderation variable: an experimental study. *European Research Studies*, 20(2), 197.
- Haron, H., Hartadi, B., Ansari, M., & Ismail, I. (2009). Factors influencing auditor's going concern opinion. *Asian Academy of Management Journal*, 14(1), 1-19.
- Harris, R., & Meiranto, W. (2015). Pengaruh Debt Default, Disclosure, Opini Audit Tahun Sebelumnya, Ukuran Perusahaan, dan Opinion Shopping terhadap Penerimaan Opini Audit Going Concern. *Diponegoro Journal of Accounting*, 4(4), 298-308.
- Indonesia, I. A. (2009). Standar akuntansi keuangan.
- Jamaluddin, M. (2018). The Effect Of Financial Distress And Disclosure On Going Concern Opinion Of The Banking Company Listing In Indonesian Stock Exchange. *International Journal of Scientific Research and Management*, 6(01).
- Mayew, W. J., Sethuraman, M., & Venkatachalam, M. (2014). MD&A Disclosure and the Firm's Ability to Continue as a Going Concern. *The Accounting Review*, 90(4), 1621-1651.
- Murtin, A., & Anam, C. (2008). Pengaruh Kualitas Audit, Debt Default Dan Kondisi Keuangan Perusahaan Terhadap Penerimaan Opini Going Concern. *Journal of Accounting and Investment*, 9(2), 197-207.
- Newton, N. J., Persellin, J. S., Wang, D., & Wilkins, M. S. (2015). Internal control opinion shopping and audit market competition. *The Accounting Review*, 91(2), 603-623.
- O'Reilly, D. M. (2010). Do investors perceive the going-concern opinion as useful for pricing stocks?. *Managerial Auditing Journal*.
- Rianto, K., Hasan, A., & Al Azhar, A. (2016). Pengaruh Kualitas Auditor, Debt Default, Opinion Shopping, Opini Audit Tahun Sebelumnya Dan Reputasi Kap Terhadap Penerimaan Opini Audit Going Concern (Studi

- Empiris Pada Perusahaan Manufaktur Di BEI). *Jurnal Online Mahasiswa Fakultas Ekonomi Universitas Riau*, 3(1), 264-278.
- Rosnidah, I., Sulistyowati, W. A., & Yulianto, A. (2017). The Effects of Ethical Orientation and Moral Intensity on the Ethical Decision of an Auditor. *Devotio: Journal of Business and Economic Studies*, 11(1), 55-70.
- Rosnidah, I., Sulistyowati, W. A., & Yulianto, A. (2018). DILEMA ETIS PADA CALON AUDITOR: SEBUAH EKSPERIMEN. *Jurnal Akuntansi Indonesia*, 7(2), 35-48.
- Salleh, K., & Jasmani, H. (2014). *Audit Rotation and Audit Report: Empirical Evidence from Malaysian PLCs over the Period of Ten Years. Procedia - Social and Behavioral Sciences*, 145, 40-50. doi:10.1016/j.sbspro.2014.06.009
- Sundgren, S., & Svanström, T. (2014). Auditor-in-charge characteristics and going-concern reporting. *Contemporary Accounting Research*, 31(2), 531-550